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Annual Report 1978

**PRESTON
MINES
LIMITED**

Preston

MINES LIMITED

120 Adelaide Street West
Toronto, Canada M5H 1W5

Annual Report 1978

Directors

G. R. ALBINO

President and Chief Operating
Officer, Rio Algom Limited (1),
Toronto

*R. D. ARMSTRONG

Chairman and Chief Executive
Officer, Rio Algom Limited(1),
Toronto

R. C. BERRY

Vice-President and General
Manager, Tinto Holdings Canada
Limited (2), Toronto

*J. IAN CROOKSTON

Financial Consultant, Toronto

P. H. DEAN

An Executive Director, The Rio
Tinto-Zinc Corporation Limited (3),
London, England

*W. C. PITFIELD

President, Pitfield, Mackay, Ross
& Company Limited, Investment
Dealers, Toronto

*Members of the Audit Committee

Officers

R. D. ARMSTRONG, *Chairman
and Chief Executive Officer*

W. C. PITFIELD, *Vice-Chairman*

G. R. ALBINO, *President and
Chief Operating Officer*

D. G. SCOTT, *Vice-President*

A. C. TURNER, *Vice-President, Secretary*

J. VAN NETTEN, *Treasurer*

(1) *Exploration for and mining of ores and
minerals and manufacture and distribution
of stainless and specialty steel mill products.*

(2) *The holding company for certain Canadian
interests of The Rio Tinto-Zinc Corporation
Limited.*

(3) *The parent of an international group of
mining and industrial companies.*

ANNUAL MEETING

The Corporation will hold an
Annual and General Meeting of
Shareholders on Thursday, April
26, 1979 at 10:30 a.m. (Toronto
time) in the Confederation Room,
Royal York Hotel, 100 Front Street
West, Toronto, Canada.

Directors' Report

To the Shareholders:

The project estimates and other criteria pertaining to the contract between Preston and Ontario Hydro regarding the Corporation's Stanleigh mining property described in the 1977 Annual Report were confirmed by both parties in November, 1978. The contract provides generally for financing of the facilities and working capital required to develop and operate the property by means of interest free advances by Hydro and for delivery to Hydro of all the uranium in concentrate to be produced from the property. Price and repayment formulae reflect these contractual provisions. Preliminary work on the project is in progress and production is scheduled to reach the objective of about two million pounds of uranium in concentrate per year on average by mid-1984.

Earnings

Net earnings for the year 1978 were \$26.8 million (\$3.03 per common share) compared to \$18.2 million (\$2.07 per common share) in 1977. The net earnings for both years include Preston's 43.8% equity interest in the net earnings of Rio Algom Limited in the amounts of \$26.9 million and \$18.4 million in 1978 and 1977, respectively.

The increase in Rio Algom's earnings in 1978 compared with 1977 was mainly due to higher earnings from steel manufacturing and metal distribution operations and from the copper-molybdenum mine of Lornex Mining Corporation Ltd. (68.1% owned by Rio Algom) partially offset by slightly lower earnings from uranium operations. Income and mining taxes on Rio Algom's earnings in 1978 were only slightly higher than in the previous year; a decrease in the effective tax rate in 1978 is mainly attributable to reduced mining taxes on lower uranium taxable earnings and increased investment tax credits associated with major capital expenditures for expansion of uranium operations.

For your information and with the consent of Rio Algom the Annual Report of that Corporation for 1978 is forwarded to you with this Report.

Dividends Paid and Received

Preston paid dividends of \$7.1 million (\$0.80 per share) on its common shares in 1978 compared to \$6.2 million (\$0.70 per share) in 1977. The increase in dividend payments represents an increase from \$0.35 per common share to \$0.45 per common share in the case of the second of the two semi-annual dividends that are normally paid. Preston received dividends of \$7.6 million in 1978 and \$6.4 million in 1977 on the Rio Algom common shares which it holds.

For the past several years Preston paid dividends in excess of dividends received from Rio Algom and as a result its cash position became depleted. In order to

replenish Preston's cash position its dividend rate was not changed when the Rio Algom dividend was increased by eight cents (8¢) per share for the year 1977 and the increase of ten cents (10¢) per share in the second of the semi-annual dividends paid by Preston in 1978 was less than the equivalent of the increase in the second of the semi-annual dividends received from Rio Algom in 1978. As soon as an appropriate cash position is established consideration will be given to the relationship that can be established between dividends received from Rio Algom and dividends paid out by Preston.

As previously reported, the dates for the semi-annual dividend payments by Preston (and Rio Algom) have been advanced from June and December to May and November. This change was made to avoid year-end postal congestion and to permit earlier mailing to shareholders of reports that they require for income tax purposes.

Stanleigh Project

The Corporation's Stanleigh mining property is located on the South Limb of the uranium bearing formations contiguous to properties of Rio Algom in the area.

The 1977 Annual Report contained the key terms of an agreement concluded in January, 1978, between Preston and Ontario Hydro for delivery to the utility of all of the uranium in concentrate to be produced from Preston's Stanleigh property. Since the contract has now been confirmed by both parties it is appropriate to again present a summary of its terms:

- Deliveries are to approximate 72 million pounds of uranium in concentrate over the years 1983 to 2020.
- The selling price of uranium to be delivered will be determined annually. It will be the sum of:
 - (a) a base price which includes:
 - (i) Preston's total operating costs;
 - (ii) an allowance for amortization of all preproduction and subsequent capital costs;
 - (iii) taxes (including mining taxes but excluding income taxes);
 - (iv) \$5 per pound of uranium produced, which is subject to escalation; plus
 - (b) an additional amount equal to one-third of any excess of estimated free market price of uranium over the base price.
- Ontario Hydro will make interest free advances of the funds required to bring the Stanleigh Project into production, estimated at \$188.5 million in 1975 dollars, and the funds necessary for the working and sustaining capital requirements of the Stanleigh Project. The advances will be secured by a non-



recourse first charge against the Stanleigh Project assets.

- The funds advanced will be repaid to Ontario Hydro in amounts approximately equal to the amortization allowance included in the base price. The additional amount derived by Preston from its share of any excess of the free market price over the base price will generally be retained by Ontario Hydro and will become payable to Preston over an extended period commencing when the accumulated additional amount so retained exceeds the outstanding balance of the advances.
- There are provisions for expansion of the project and acceleration of deliveries, curtailment of deliveries, early termination by Ontario Hydro in certain eventualities including a determination during the construction period that there will be a substantial increase in the actual or anticipated costs of construction or operation of the Stanleigh Project over those estimated in the Project Report as escalated by indices established from time to time until the end of the construction period.
- Rio Algom will supervise and manage the evaluation, planning, development, construction, operation and shutdown of the Stanleigh Project and provide a work force for the Project on behalf of Preston on a fee basis and in accordance with the agreement with Ontario Hydro.

The Stanleigh mine and mill have been idle since termination of mining in November, 1960 and the closing of the mill in January, 1961. Surface preparation work and rehabilitation of the headframe and service hoist is in progress and dewatering of the mine is scheduled to begin in August, 1979. Construction and

The Stanleigh uranium mine complex at Elliot Lake which is to be developed for production start-up in 1983.

development work on the production facilities is planned to be substantially completed in mid-1983 and production at the design average milling rate of approximately 5,000 tons of ore per day is scheduled for early 1984. Annual production of uranium in concentrate is expected to average about two million pounds.

In addition to the mine development and construction, housing units must be constructed over the period 1978 through 1984 as required for up to the 1,100 people who will be directly employed when full production is achieved. Preston is obligated to use its best efforts to obtain maximum mortgage financing for such houses but Ontario Hydro will advance that portion of the cost of such housing approved by Ontario Hydro for which third party financing cannot be arranged. Construction or acquisition of the necessary accommodation is in progress.

On March 2, 1979, Mr. D. G. Scott, an Assistant Treasurer of the Corporation, was appointed a Vice-President with responsibilities relating to the Stanleigh Project.

On behalf of the Board

R. D. ARMSTRONG,
Chairman and
Chief Executive Officer

G. R. ALBINO,
President and
Chief Operating Officer

Toronto, Canada
March 2, 1979

Auditors' Report to the Shareholders

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1978 and the statements of earnings, retained earnings and contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 2, 1979

COOPERS & LYBRAND
Chartered Accountants

Preston Mines Limited
(Incorporated under the laws of Ontario)

Statement of Financial Position

December 31, 1978

(Thousands of dollars)

	<u>1978</u>	<u>1977</u>
CURRENT ASSETS:		
Cash and short term deposits	\$ 146	\$ 321
Accounts receivable and prepaid expenses	3	8
	<u>149</u>	<u>329</u>
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	443	94
Payable to Rio Algom Limited	179	83
Unclaimed dividends	331	307
	<u>953</u>	<u>484</u>
WORKING CAPITAL (DEFICIENCY)	(804)	(155)
Investment in Rio Algom Limited		
5,920,640 common shares (note 1)	167,352	147,993
Mining properties, less amortization (note 2)	—	—
Construction in progress — Stanleigh Property (note 3)	4,273	1,307
Total assets less current liabilities	170,821	149,145
Less advances from Ontario Hydro (note 3)	1,920	—
EXCESS OF ASSETS OVER LIABILITIES	\$ 168,901	\$ 149,145
OWNERSHIP EVIDENCED BY:		
Capital stock		
Authorized:		
1,069,925 4% cumulative, redeemable, non-voting preference shares with a par value of 50 cents each		
10,000,000 common shares without par value		
Issued:		
8,830,499 common shares	\$ 37,459	\$ 37,459
Contributed surplus	24,963	24,897
Retained earnings	106,479	86,789
	<u>\$ 168,901</u>	<u>\$ 149,145</u>

Approved on behalf of the Board:

J. I. CROOKSTON, Director

R. D. ARMSTRONG, Director

Statement of Earnings, Retained Earnings and Contributed Surplus

YEAR ENDED DECEMBER 31, 1978

(Thousands of dollars)

	1978	1977
EARNINGS		
Equity in net earnings of Rio Algom Limited	\$ 26,930	\$ 18,372
Excess of miscellaneous expenses over sundry income	(176)	(126)
Net earnings for the year (note 4)	<u>\$ 26,754</u>	<u>\$ 18,246</u>
 Earnings per common share	 <u>\$ 3.03</u>	 <u>\$ 2.07</u>
 RETAINED EARNINGS		
BALANCE, beginning of year	\$ 86,789	\$ 74,724
Net earnings for the year	26,754	18,246
	<u>113,543</u>	<u>92,970</u>
Dividends paid on common shares at the rate of \$0.80 per share (\$0.70 in 1977)	7,064	6,181
BALANCE, end of year	<u>\$ 106,479</u>	<u>\$ 86,789</u>
 CONTRIBUTED SURPLUS		
BALANCE, beginning of year	\$ 24,897	\$ 24,762
Equity in increase in contributed surplus of Rio Algom	66	135
BALANCE, end of year	<u>\$ 24,963</u>	<u>\$ 24,897</u>

Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1978

(Thousands of dollars)

	<u>1978</u>	<u>1977</u>
SOURCE OF FUNDS:		
Dividends from Rio Algom Limited	\$ 7,637	\$ 6,394
Advances received from Ontario Hydro	1,920	—
Excess of miscellaneous expenses over sundry income	(176)	(126)
	<u>9,381</u>	<u>6,268</u>
DISPOSITION OF FUNDS:		
Dividends on common shares	7,064	6,181
Construction in progress — Stanleigh Property	2,966	715
	<u>10,030</u>	<u>6,896</u>
DECREASE IN WORKING CAPITAL	(649)	(628)
WORKING CAPITAL (DEFICIENCY), beginning of year	(155)	473
WORKING CAPITAL (DEFICIENCY), end of year	<u>\$ (804)</u>	<u>\$ (155)</u>

Notes to Financial Statements

DECEMBER 31, 1978

1. INVESTMENT IN RIO ALGOM LIMITED

The Corporation's investment in common shares of Rio Algom Limited represents 43.8% of the issued common shares of Rio Algom and is carried on the equity accounting basis. The cost of the Corporation's investment exceeded its equity in the net assets of Rio Algom at date of acquisition by \$11,221,004 and this excess has been written off to retained earnings.

2. PLANT AND EQUIPMENT

	1978	1977
Buildings, machinery and equipment, at cost	\$8,340,079	\$8,340,079
Less accumulated depreciation	8,340,079	8,340,079
	<u>\$ —</u>	<u>\$ —</u>
Mining properties, at cost	\$ 569,789	\$ 569,789
Less accumulated amortization	569,787	569,787
	<u>\$ 2</u>	<u>\$ 2</u>

3. ADVANCES FROM ONTARIO HYDRO

Balance owing at December 31	\$1,920,063	\$ —
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Under an agreement concluded in January 1978, Ontario Hydro has agreed to make interest-free advances of the funds required to bring the Stanleigh Project into production, and the funds necessary for the working and sustaining capital requirements of the Stanleigh Project. The funds advanced are to be repaid to Ontario Hydro over the delivery period, estimated to begin in mid-1983, in amounts approximately equal to the amortization allowance included in the base price, as defined in the agreement, of uranium delivered. The advances are secured by a non-recourse first charge against the Stanleigh Project assets.

4. INCOME AND MINING TAXES

Because of the exemptions and deductions permitted for tax purposes, it is estimated that the Corporation has no liability for income or mining taxes for the year.

5. MANAGEMENT FEE

The Corporation's affiliated corporation, Rio Algom Limited, has agreed to manage the development and subsequent operations of the Stanleigh Project and the Corporation has agreed to pay a management fee of \$750,000 for each of the years 1978 to 1983 inclusive and \$500,000 for 1984 and each succeeding year; the annual management fee will be escalated from the fourth quarter of 1977 in accordance with a formula based on published government indices. The 1978 management fee of \$786,000 is included in construction in progress in the attached statement of financial position.

6. UNAUDITED QUARTERLY RESULTS

The quarterly equity in net earnings of Rio Algom Limited, net earnings and earnings per share as previously reported in unaudited quarterly reports to shareholders are set forth in the following table (dollars in millions, except per share):

Quarter Ended	Equity in Net Earnings of Rio Algom		Net Earnings		Earnings Per Share	
	1978	1977	1978	1977	1978	1977
Mar. 31	\$ 5.4	\$ 6.8	\$ 5.4	\$ 6.8	\$0.61	\$0.77
June 30	6.7	4.1	6.6	4.1	0.75	0.46
Sept. 30	6.3	3.9	6.2	3.8	0.71	0.44
Dec. 31	8.5	3.6	8.6	3.5	0.96	0.40
	<u>\$ 26.9</u>	<u>\$ 18.4</u>	<u>\$ 26.8</u>	<u>\$ 18.2</u>	<u>\$ 3.03</u>	<u>\$ 2.07</u>

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1978 the aggregate direct remuneration paid or payable by the Corporation to the Directors and Senior Officers of the Corporation was \$10,300.

Supplementary Information

Five Year Review

(Thousands of dollars)

	1978	1977	1976	1975	1974
Equity in net earnings of Rio Algom Limited	\$ 26,930	\$ 18,372	\$ 13,558	\$ 12,882	\$ 19,018
Excess (deficiency) of sundry income over miscellaneous expenses	(176)	(126)	(97)	2	226
NET EARNINGS FOR THE YEAR	\$ 26,754	\$ 18,246	\$ 13,461	\$ 12,884	\$ 19,244
Earnings per share	\$ 3.03	\$ 2.07	\$ 1.52	\$ 1.54	\$ 2.45
Dividends paid (\$000's)	\$ 7,064	\$ 6,181	\$ 6,181	\$ 6,181	\$ 5,495
Per share of common stock	80¢	70¢	70¢	70¢	70¢
Common shares outstanding (000's)	8,830	8,830	8,830	8,830	7,849
Number of shareholders	2,800	3,000	3,100	3,400	3,400

Price Range of Common Shares and Dividends Paid

The following table shows the high and low prices for Preston common shares on The Toronto Stock Exchange and the dividends paid on these shares by the Corporation.

	1978	1977
First Quarter	\$17 6/8 – 14 4/8	\$14 7/8 – 13 2/8
Second Quarter	18 7/8 – 15 4/8	15 2/8 – 13 4/8
Third Quarter	20 5/8 – 16 3/8	15 1/8 – 12 3/8
Fourth Quarter	21 2/8 – 17.00	15 2/8 – 11 2/8

Dividends paid per share: June 30, 1978 – 35¢; November 30, 1978 – 45¢.
June 30, 1977 – 35¢; December 30, 1977 – 35¢.

Preston Mines Limited

Miscellaneous Corporate Information

Head Office

120 Adelaide Street West, Toronto, Canada M5H 1W5

Auditors

Coopers & Lybrand, Chartered Accountants
Toronto, Ontario

Transfer Agents

Common Shares

Canada Permanent Trust Company
Toronto, Ontario

The Canadian Bank of Commerce Trust Company
New York, N.Y.

Common Shares Listed

Toronto Stock Exchange
Toronto, Ontario

American Stock Exchange
New York, N.Y.

Form 10-K Annual Report

The Corporation's Form 10-K annual report for 1978 to the United States Securities and Exchange Commission will be available to shareholders on written request to the Secretary of the Corporation.

